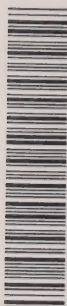


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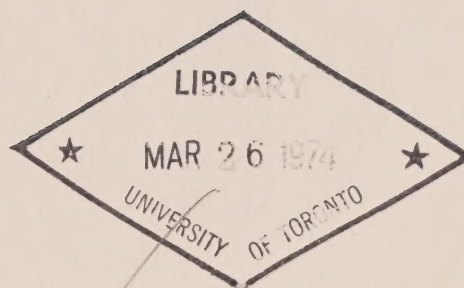
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THE RESTRUCTURING OF PUBLIC UTILITIES

Ontario. [Commissions and Committees
of Inquiry]



REPORT BY

GOVERNMENT COMMITTEE ON RESTRUCTURING OF PUBLIC UTILITIES

FEB. 8, 1974



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Government Committee on Restructuring of Public Utilities

CAZONES
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February 8, 1974

TO THE HON. W. DARCY McKEOUGH
MINISTER OF ENERGY
GOVERNMENT OF ONTARIO

We, the members of the Government Committee on Restructuring of Public Utilities, appointed by the Minister of Energy on August 13, 1973, to develop general guidelines and criteria associated with the restructuring of electrical retail authorities, submit herewith our report containing recommendations relative to improving the efficiency and effectiveness of the distribution sector of the electrical supply system in Ontario.

E. S. Bainbridge J. W. Hamilton.

J. L. Bradley Robert R. Hay

L. E. Cooke B. K. White

Em Fleming

my Jagg.
Chairman

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SECTION I

INTRODUCTION

The need for restructuring the jurisdictions of retail electrical distribution authorities became apparent in 1968 with the announcement (Design for Development - Phase II) by the Provincial Government of a major reorganization of municipal government structures. With the enactment of legislation establishing the first regional governments, concerned electrical utility authorities submitted briefs and submissions on the matter to the Government. These briefs examined those areas which had been designated for regionalization and proposed ways existing retail electrical utilities could integrate within the new municipal boundaries.

General recognition was given to the fact that isolated regional utility restructuring would have impacts on the supply authorities of neighbouring territories and even across the total delivery system. This fact suggested the need for the development of a general, yet somewhat flexible, program of utility restructuring which could be applicable throughout the Province.

Temporary maintenance of existing supply agencies and their service boundaries was not viewed as interfering with the responsibilities of the new municipal authorities. Indeed the progressive development of the structure of "Hydro in Ontario" has accepted many of the principles incorporated in the concepts of regional government.

The total delivery system has always had the flexibility whereby municipal utilities could expand their operation upon annexation or by the formation of new municipal systems. The major restructuring of local government and the establishment of many new boundaries has created, however, circumstances of such magnitude and significance to force examination of different ways and means new electrical utilities might evolve from those presently supplying service.

On August 15, 1972 Task Force Hydro tabled its first report "Hydro in Ontario - A Future Role and Place". This report contained a number of recommendations dealing with Hydro's role in relation to the rationalization of the distribution sector and proposed ways the Hydro organization

might adapt to, and integrate with, new government structures while preserving local responsibility and customer responsiveness. Recommendations 1.23 to 1.31 dealt with a future need for a greater distinction between Ontario Hydro functions of generation and transmission and that of the municipal utilities for the distribution function. Foreseeing changes in the way power should be distributed in the Province, the Task Force recommended that the number of utilities be reduced through the establishment of regional utilities commencing in those territories where new municipal governments had been legislated. Further, while accepting the commission type of control for the larger units it proposed a more direct relationship between the utility and municipal government. The need for uniformity and consistency in the technological and administrative relationship between Ontario Hydro and the municipal utilities was noted in the forementioned report.

Traditionally, recommendations and proposals set forth by bodies such as Task Force Hydro have been utilized by governments to elicit further opinions and recommendations prior to any action being initiated. A period of time was

afforded authorities involved in utility operations to study the impacts Task Force Hydro's recommendations could have if applied to their individual local situations.

There was general acknowledgement that too many utilities existed and that economic and administrative grounds suggested some rationalization was desirable. Other briefs and submissions to the Government of Ontario suggested that uniform implementation of regional electrical utilities across Ontario was not desirable and that the establishment of other forms of distribution organizations would be more effective if local situations were given individual study and attention.

In March 1973, addressing the 64th joint convention of the OMEA - AMEU, the Premier of Ontario stated that the Government accepted the need for local examination and announced that identification and resolution of the issues associated with rationalization of the retail sector would be the responsibility of a government appointed committee.

The Minister of Energy announced the establishment of this Committee in August of 1973. Comprised of representatives from The Ontario Municipal Electric Association, The Association of Municipal Electrical Utilities, Ministries of the Provincial Government, The Municipal Liaison Committee, Ontario Hydro, and chaired by Mr. W.M. Hogg, the Committee held its first meeting on August 28th.

The Minister indicated the Committee's terms of reference would be "identifying areas of agreement having to do with principles and guidelines regarding the process of restructuring of public electrical utilities in Ontario. Where possible the Committee is asked to make recommendations regarding responsibility for resolving these questions. The Committee's recommendations should be sufficiently flexible to accommodate local conditions within the general framework".

The Committee deemed it advisable to invite municipal corporations and electrical utilities within existing or designated regional or district governments for available briefs and reports on restructuring. While limiting the invitation to available material and imposing a restrictive

deadline for receipt, the Committee received over eighty responses now included in its working papers. These responses ranged from mere acknowledgement to in-depth studies of the impacts which could be expected under various principles, and the criteria under which new electrical utilities could be established. The latter type of submission primarily came from sections where regional government had been in situ for some time. Several replies requested permission to appear personally before the Committee. Time limitation prohibited entertaining such requests but the Committee did suggest that personal presentations would be meaningful input to individual, local studies which the Committee recommends would be instituted at a later date.

A number of restructuring studies had been carried out by staff of Ontario Hydro in co-operation with municipal electrical utilities. These studies examined the impact over a period of five years on general revenue requirements of establishing new electrical utilities at both the regional and the area government level. Because many of the recommendations of Task Force Hydro have yet to be acted upon, it was necessary that

these studies be based on common assumptions some of which may or may not be translated into policies and practices. However, they did provide good background information on the problems involved in restructuring and highlighted the marked differences that can be experienced between regions. The Committee sought and were afforded access to these studies for background material and information.

A number of reports and papers produced by members of the Committee have been tabled, and these documents along with comments and observations they evoked during sessions form part of the working papers of the Committee.

The years 1946 - 68 have seen Ontario's urban communities engaged in many large-scale annexations of neighbouring suburban and rural territories. Policies and practices have been developed to accommodate existing municipal utilities expanding their retail operations upon annexation or by the formation of new municipal systems. Existing policies and practices do not, in all cases, suffice or cover the problem areas encountered in the substantial and complex reorganization

being studied. Where it was necessary to examine the rationale behind existing policies or test the practicality of new methods and practices the Committee did not hesitate to consult with knowledgeable people in the electrical distribution field.

The Committee agrees with the views expressed by Task Force Hydro that the minimum size of new utilities should be predicated on a specific range of activities they will be capable of conducting independent of support from larger utilities or Ontario Hydro. On this basis the amalgamation of a number of smaller operating units to form a larger more self-sufficient utility will likely result in an expanded range of activities being carried out at the local level.

The many advantages associated with the establishment of stronger, broader based utilities will accrue over a period of time. However, the Committee foresees that some electrical users may not see the long term benefits and relate restructuring to an immediate increase in their electrical energy charges.

The report and its recommendations deal with major issues of rationalization foreseen by the Committee and should provide

the framework within which restructuring of electrical utilities may be attained. The guidelines and principles have been drafted with full recognition of the sensitivity associated with restructuring an entity which has provided a high quality of service at reasonable cost to the end user.

The foregoing provides the background of this Committee's report to the Minister of Energy and to those bodies having representation on the Committee.

NOTE: Throughout the Report references to The Power Corporation Act should be read as references to The Power Commission Act until The Power Commission Amendment Act, 1973 is proclaimed in force.

SECTION II

HISTORICAL AND STATISTICAL OUTLINE OF RETAIL DISTRIBUTION SYSTEMS

History

In the early 1900's, the generation of power in Ontario was principally from privately or municipally-owned small hydraulic and coal-fired steam plants. The output of these plants was limited and the cost was high. Coal from Alberta or imported from the United States was becoming increasingly expensive. Consequently, industrialists and municipal leaders began to express concern for the future availability and costs of electrical power.

The development of electrical technology, particularly with respect to long-distance transmission, focussed attention on the possibility of obtaining low cost power from the Niagara River. At the same time, rights had been granted and private interests had built generating plants on the Canadian side of the Niagara River. The rates for power delivered from these plants were considered to be excessive. A demand arose, therefore, amongst these municipal and business leaders for public ownership of the

Province's water power resources, and the creation of a central agency that would transmit an assured supply of low cost power to the municipalities principally from the Niagara River.

This movement for low cost public power eventually led to the creation of the Hydro-Electric Power Commission of Ontario and the passage in 1907 of The Power Commission Act. Under this Act, the function of Ontario Hydro was seen essentially as that of a "wholesaler" of electricity with the municipalities as "retailers".

On May 4, 1908, 14 municipalities entered into a contract with Ontario Hydro for the supply of power which they in turn would distribute to customers within their municipal boundaries. The success of this enterprise soon became apparent and more municipalities (cities, towns, villages and townships) contracted for a supply of power so that at December 31, 1972, some 353 municipalities were members of the cooperative.

After the first world war, an increasing demand arose for the extension of electrical service to farmers and other prospective

customers in the rural and the more remote sections of the Province. These customers were located in rural township municipalities which could not afford to construct and maintain a distribution system as had the more urban municipalities that contracted to purchase bulk power from Ontario Hydro.

Accordingly, the Commission entered into contracts with these rural townships to supply electricity to the ultimate customers. With financial assistance from the Provincial Government, Ontario Hydro undertook to construct and operate a retail distribution system which today extends throughout the Province except in some of the more remote sections of Northern Ontario and in the 353 municipalities supplied under "cost" contracts.

A further development took place in Ontario Hydro's retail system whereby the Commission acquired ownership and assumed the operation of a number of distribution systems within incorporated municipalities or other relatively high density areas mainly in Northern Ontario. These distribution systems had been operated by private interests who eventually found that continued operation

was not economic. The municipality or group of customers did not want to acquire ownership or was financially unable to do so and, accordingly, Ontario Hydro assumed responsibility and has continued to serve these entities as Local Systems.

While originally, there were over 30 of these Local Systems, many have been incorporated into the rural retail system so that there now remain only 13 Local Systems all located in Hydro's Northeastern and Northwestern Regions. The Local Systems are physically and financially a part of Ontario Hydro's retail system, but are charged for power and bill their customers as municipal utilities. Operation of the Local Systems is undertaken by the staff of Ontario Hydro's nearest rural area office.

Ontario Hydro also provides service to 88 Large Industrial customers. Many of these customers are located outside the boundaries of the 353 co-operating municipalities and, in the main, their loads exceed 5,000 kW. There are, however, 36 direct customers located within the jurisdictional areas of some municipal utilities primarily because it would not be technically or financially feasible for the municipal systems to provide service to loads of this magnitude.

These Direct Industrial customers are served from Ontario Hydro's bulk power system and, as such, are not part of the rural retail system. The direct customers along with the rural retail customers and the Local Systems do form, however, a unit known as the Power District which is regarded as similar to a municipal utility system except in geographic size.

The development of retail distribution systems over the past 65 years has been seen primarily as a function of the municipal corporation. Due to the need to extend service to the more remote areas of the Province and due to other local circumstances, it has been necessary, however, for Ontario Hydro to develop an extensive retail distribution system.

Municipal Utility Statistics

The 353 municipal utility systems provided service to 1,821,800 customers at December 31, 1972, representing approximately 73% of the total number of customers in the Province. Similarly, the total average monthly peak load of the municipal utilities was 7,314,600 kW in 1972 representing 66.5% of the average monthly peak load delivered to all customers including those in the Power District.

The municipal utility systems vary significantly in size ranging from 86 customers with an average monthly peak load of 100 kW to 220,000 customers and 950,900 kW. Forty-eight municipal utilities each serve over 5,000 customers and, in total, provide a retailing function to approximately 1.5 million customers or 82% of all municipal utility customers in the Province. In addition, there are 106 separate municipal utility systems each serving between 1,000 and 5,000 customers, and another 199 municipal utilities that each provide service to less than 1,000 customers.

The municipal utilities have a significant capital investment in their distribution systems and other facilities. The original cost of fixed assets totalled \$982.7 million with a depreciated value of \$707.7 million at December 31, 1972. This plant has essentially been financed through revenue and borrowed funds. Over the years, much of the debt has been retired so that at December 31, 1972 debentures in the amount of approximately \$123 million were outstanding and the municipal utilities debt/equity ratio in total was 16:84.

The management and control of 280 municipal utility systems serving approximately 1,756,400 customers or 96.4% of the total municipal utility customers has been entrusted to 276 elected local commissions and 4 appointed commissions. The remaining 73 municipal utilities serving 65,300 customers are administered by a Committee of Council or by the Trustees of a Police Village.

Power District Statistics

At December 31, 1972, the rural retail distribution system owned and operated by Ontario Hydro provided service to 630,300 customers over 53,300 miles of rural distribution line facilities. In addition, the Local Systems (15 at December 31, 1972) owned and operated by Ontario Hydro served 28,400 customers over 220 miles of line. In terms of load, the average monthly peak load of the rural system was 1,704,400 kW and that of the Local Systems was 62,300 kW. Ontario Hydro's retail system, therefore, supplied a total of 658,700 customers with an average monthly peak load of 1,766,700 kW, making it the largest single retailing unit in the Province.

Administration of this retailing organization is undertaken through staff at Ontario Hydro's head office, seven Regional Offices and 67 Area Offices. The original cost of the distribution facilities within the rural retail system and the Local Systems approximates \$465 million, of which some \$126.7 million was contributed through the Government's Grants-in-Aid. A review of these grants-in-aid follows in the section of this report dealing with the transfer of assets and liabilities. In addition, capital is invested in substations and certain subtransmission lines that serve customers of the rural retail system. This capital is presently included in the total assets of Ontario Hydro's bulk power system and is not, therefore, readily available for statistical purposes. It can and will be identified, however, when it becomes necessary to transfer such assets to a new electrical utility. To this extent, a comparison of the capital invested in municipal utility retail distribution systems and in the rural retail system is not valid.

The average monthly peak load delivered to the 88 direct customers in 1972 was 1,927,000 kW. As these customers are served directly from the bulk power system, it is not practical to identify the capital invested at this time.

SECTION III

LOCAL GOVERNMENT AND RETAIL ELECTRICAL DISTRIBUTION

Reorganization of Local Government

The emergence of a strong national economy after World War II had important consequences for local government and for the management of local services in municipalities in Ontario. Abundant employment opportunities near the major urban areas of southern Ontario fostered commercial and residential development in and adjacent to cities and towns. Municipal activities had to expand to provide the necessary water, sewer, electrical, transportation and other services that were required by new urban residents. This expansion of municipal activities severely strained the fabric of local government which had remained almost unaltered since the period of economic stagnation in the 1930's.

Many municipalities which had optimistically expanded services and incurred debenture debt prior to 1929 found in the economic depression that these debenture obligations could not be met.

Provincial supervision of local governments was instituted where municipalities were in danger of defaulting on debts. In a few cases, municipalities were reorganized into larger units, but generally, municipal servicing programs were curtailed due to the unfavourable economic circumstances. This low level of municipal activity persisted throughout the war years when essential goods and services were redirected to the national war effort. As a result, the post war period saw a large unsatisfied demand for municipal services which had been curtailed since before 1930. This backlog was added to by the rapid urban development that occurred as urban employment opportunities attracted rural inhabitants from across Canada to Ontario's towns and cities causing development to spill over to surrounding rural areas.

The first signs of stress that foretold the impending reorganization of the traditional pattern of local government became evident on the periphery of the major urban areas. Quiet rural townships were financially and administratively unprepared to cope with the demands for new services occasioned by the rapid spread of suburban communities.

The Consolidation of Local Government in Urban Areas

The initial response to this crisis was twofold. The most dramatic evidence of the reaction to these problems rests in the decisions and orders of the Ontario Municipal Board which, on frequent occasions, multiplied the size of urban municipalities through the annexation or amalgamation of surrounding suburban townships. By financial sanctions and controls, the Board reinforced its decisions by limiting the capacity of some townships to accept urban growth.

Annexations and amalgamations alone could not resolve the problems which were facing local government. Too frequently, the adversary nature of the process resulted in bitter confrontations between urban and rural municipalities.

Rural municipalities welcomed new development as the addition to taxable assessment promised to yield new revenues to begin to meet some of the service demands which had not been met for a considerable period. Development preceded planning and servicing in some rural townships, and it was recognized that servicing costs could in time overwhelm the promise of new tax resources and impose new burdens that could not be supported by rural townships.

After annexation, residual portions of townships were frequently in a worse position than before the start of development, and urban municipalities had to meet the costs of servicing development in the annexed areas through higher tax rates.

As a result, the Government of Ontario increased the capacity of its own administration to assume directly many of the responsibilities of local government for the servicing and financing of urban growth. In one case only, that of Metropolitan Toronto, did the reaction to the sustained pressure of growth culminate in the development of new and integrated forms of local government structure and administration prior to 1960.

During the 1960's, the shortcomings of this intuitive and pragmatic response to urban growth were becoming evident and were the subject of comment by several reports commissioned by the Government. The financial capacity of local government to accommodate existing development was not increased by this approach. Moreover, the ability of local government to plan

and service community needs was rapidly disappearing as provincial departments and agencies became increasingly concerned with direct programs that supplanted local responsibility.

In 1965, the Fourth and Final Report of The Select Committee on the Municipal Act and Related Acts (The Beckett Committee) commented on the need for a comprehensive reform of the municipal structure based on regional governments which were to be implemented through the reorganization of the existing county units. In 1967, The Ontario Committee on Taxation (The Smith Committee) recommended a sweeping reorganization of municipal government. Moreover, the Committee strongly urged that a needed expansion of financial assistance to local government be delayed until some reform of the structure of local government had been accomplished.

The publication in December of 1968 of Design for Development - Phase II by the Government of Ontario, signalled an important departure from the earlier piecemeal adjustment to urban growth. The document recognized the progress towards regional government that had been accomplished in the Ottawa-

Carleton and Niagara Regions and set down a time-table for reorganization in certain other parts of Ontario. The policies announced sought to reverse the erosion of local government responsibility and authority. As long as municipalities were too small and financially unprepared to plan for and arrange the servicing of urban development, there was an apparent and necessary reaction by provincial departments and agencies to expand activities into local spheres of responsibility.

The object of the reform of local government was to re-establish municipalities in a central role as the primary forum for the determination of community priorities and plans, in addition to the routine administration of services which had become accepted as the "housekeeping" role of municipal government.

As new regional governments were established, new programs of unconditional provincial financial assistance emerged to assist areas to take advantage of the provision of regional services. Such assistance was important in overcoming the

problems not resolved by the earlier program of consolidation by annexation and amalgamation. Upon consolidation, the net fiscal resources of the merged municipalities did not effectively expand. Instead, as development regularly preceded the planning and installation of services, the new municipality could more reasonably expect heavy capital expenditures to meet the backlog of demand for improved municipal services.

Municipal Electric Commissions in the Reorganization of Local Government

All of the regional municipalities projected at the time of publication of Design for Development - Phase II have now been realized. Not only have regional municipalities been incorporated under this program, but significant alterations have also occurred to the boundaries of the constituent area municipalities. This is of particular importance to this Committee for two reasons.

First, as in the case of consolidation by order of the Ontario Municipal Board, the area surrounding the former urban municipalities is frequently administered for the purpose of

the retail distribution of electricity by Ontario Hydro through the Power District. Therefore, under the extensive reorganization associated with the establishment of regional governments, large portions of the Power District may ultimately be transferred to municipal utility jurisdiction.

The financing of these transfers, which was formerly accomplished by the issuance of debentures to acquire the assets of the Power District, will now play an important part in the determination of what level of municipal jurisdiction can reasonably assume this responsibility. In some cases, it is likely that neither the area nor the upper-tier municipality will be capable of sustaining this transfer, and the retention of the Power District form of distribution may be advisable.

Secondly, in very few instances does regional legislation make provision for the re-alignment of the boundaries of the supply authorities for the retailing of electrical power. Most municipal boundaries and those of the existing electrical authorities, therefore, no longer coincide. The resulting situation is not acceptable, as customers within a single municipality may face a multiplicity of rates, and no single

authority has jurisdiction for the control of distribution in the municipality. Residents may be confused about whom to call in the case of emergencies and the simple matters of occasional contact with the authority can become irritatingly complicated.

Moreover, the existing municipal hydro commissions, by regional legislation, have been retained in office pending the resolution of the questions surrounding the ultimate responsibility for the supply of electricity. This is an expedient, interim arrangement which sets aside the right of the electorate to review the membership of the commission by a political process. It also reduces public awareness of the commission's responsibility and responsiveness to the community.

The technical requirements for efficient administration have also suffered because municipal boundaries do not match the areas of jurisdiction of retail electric distribution authorities. Necessary improvements have been delayed due to the problems of providing for forward planning with the uncertainty existing over the future jurisdiction of electric retail organizations.

The Committee notes that in some cases this situation has persisted for more than three years and urges immediate attention to the legislative amendments that are necessary to improve this interim organization.

There are at least two courses of action that could be followed to set the framework for some reorganization of local hydro commissions. Each individual regional act could be amended to make provision for new structures for the distribution of electrical energy. Alternatively, general legislation can be developed to provide machinery necessary to implement the recommendations of this Report. On balance, this Committee prefers the second alternative which would see the consolidation in a single piece of general legislation of most of the provisions relating to the function, organization, structure and composition of authorities for the retail distribution of electrical power. By providing legislation to facilitate the transition to new forms of organization and to define the characteristics of these organizations, a consistent and unified approach to the organization for the distribution of electricity would be maintained.

It is recommended that:

- 3.1 *Legislation pertaining to the organization and authority of organizations responsible for the retail distribution of electricity be reviewed and where possible be consolidated within the framework of a single act governing the composition of municipal utilities.*

Notwithstanding the need for a consolidation of related legislation, this Committee urges immediate action to resolve the outstanding questions of the organization for retail hydro distribution in regional government areas. As The Power Corporation Act now makes provision for the retail distribution of electricity in local municipalities, the inclusion of regional governments as one additional basis of organization in that Act would account for all options foreseen by this Committee. The most simple and direct means of improving circumstances in regional areas, therefore, is through The Power Corporation Act, thus circumventing the need to amend existing regional legislation.

It is recommended that:

- 3.2 *The Power Corporation Act be amended to include provisions for the retail distribution of electric energy by a regional municipal electrical authority.*

If the recommendation above is implemented, a means would exist to carry out a reorganization of electrical utilities in any area that might in future become the subject of local government reorganization. Because the ultimate form adopted for the retail distribution of electricity is dependent upon study and analysis of the particular circumstances in the area, such studies should be initiated as soon as possible to provide for the reorganization of the retail electrical distribution function at the same time as other municipal institutions are reorganized.

It is recommended that:

- 3.3 *Future studies of local government institutions leading to the reorganization of municipalities extend to and include studies of the retail electric distribution system.*

Responsibility for the Retail System

This Committee regards the organization for retail hydro distribution as one element of the overall system of local government in Ontario. Further, the Committee considers that the relationship between the municipal council and the retail hydro authority should be simple, direct and easily understood. The Committee sees valid and compelling reasons for the retention of the commission form of organization for the retail distribution of electrical energy. In particular, the facts that the retail distribution of electrical energy in Ontario has the characteristics of a commercial enterprise, is self-supporting, and free from the need to seek local tax support, set this function apart from those duties normally assumed by municipal councils. Moreover, the very significant and expanding share of Ontario's total energy requirements that are met through the retail distribution of electricity distinguishes this operation from other municipal services. The retention of a special purpose body for the organization of this service is important to sustain a capacity to react quickly to consumer needs. Under the specific and limited terms of reference of a commission, access on day-to-day matters of concern to individuals is simplified through the identification of a single operating purpose.

As the distribution of electric power is self-supporting financially, this service does not tend to evolve issues which would disrupt local priorities established by council through normal budgeting procedures. Only in the issuance of debentures for hydro commissions is there a potential for competition for limited local resources. As will be discussed later, local and regional councils should exercise the authority to regulate the overall flow of municipal funds for capital purpose and the established principle of council review of the commission's debt financing must be maintained. Beyond this concern, the Committee considers that a commission is now required to act in accordance with stated community objectives presented in planning and other documents adopted by the municipality.

On matters of policy, the commission form of organization is linked to the elected municipal council where matters of broad community interest can be resolved, and to Ontario Hydro, which exercises responsibility for retaining common standards and compatible practices across Ontario.

The establishment of the Ministry of Energy provides a focus for the definition of provincial policies regarding the transmission and distribution of electrical energy. The clear definition of provincial priorities and objectives necessary to maintain minimum standards of service and security, does not imply an infringement of local responsibility. In fact, a recognized framework of provincial policy defining local authority and jurisdiction is essential to the effective exercise of local responsibility.

The use of special purpose local boards and commissions by the Provincial Government has come to be regarded as questionable, where, in conjunction with special conditional grants and incentives, the intent has been to intervene in the setting of local priorities to accomplish provincial objectives. This practice, which is common in many jurisdictions, reduces the responsibility of elected municipal councils for matters of local concern and reduces the effective strength of the system of local government.

The retail distribution of electricity in Ontario fills a universal need and must be provided on demand to customers that

are accessible under normal conditions prevailing in organized communities. Under such conditions of supply, the distribution of electricity has not been used as a planning tool. The policies and objectives for the development of communities should be clearly stated in and applied through the planning documents of elected municipal councils. Planning policies should reflect the community's goals and objectives. Hence electrical distribution should not be employed, even informally, to direct development.

This Committee is satisfied that, under conditions set out in this report, the commission form of organization for the distribution of electricity does not violate the objectives for strong and responsible local government in Ontario.

It is recommended that:

- 3.4 *Control of the retail distribution of electricity be exercised under the municipal commission form of organization and that this form of organization be extended to the regional distribution authorities as they are established.*

SECTION IV

COMMISSION STRUCTURE

The reorganization of local government over large areas of Ontario persuades this Committee that considerable change in the organization and size of municipal electric commissions is necessary to align the retailing of electricity with the new structure of local government. In any reorganization of existing utilities, the Committee regards the initial composition of new commissions to be critical to the ultimate success of the restructured organizations.

Existing legislation now provides for the appointment by Ontario Hydro of one member of commissions in cities of over 60,000 population. This legislation which is not mandatory in nature, has been applied only in three cities in this category. This Committee is not convinced of the desirability of retaining this authority within Ontario Hydro.

As has been noted previously, the development and publication of provincial policies on the distribution and use of electrical

and other forms of energy is a particular responsibility of the Ministry of Energy. In these circumstances the appointment of local commissioners by Ontario Hydro becomes a redundant administrative exercise. Moreover, such appointments conflict with established policies for strengthening the decision-making powers of restructured municipal governments.

It is recommended that:

- 4.1 *Where the members of municipal electric commissions are appointed they be named by the elected municipal council corresponding to the area or region within which the commission operates.*

When the area of jurisdiction of a new municipal electric commission is determined, the organization of the new commission will precede the assumption of its responsibilities for the actual control and direction of operations. During this interim period, decisions regarding the staffing, organization and integration of existing facilities must be made. Such decisions are clearly the responsibility of the new commission. These decisions inevitably will have a long term effect on the success of the

utility and should be made in the context of an on-going responsibility for the distribution of electrical energy in the region or area. Accordingly, the first commission in any new area should be appointed by the elected municipal council for the area from those persons presently knowledgeable about the retail distribution of electricity in the area.

It is recommended that:

- 4.2 Except for the head of council the members of the first commission should be appointed from the body of existing retail electric commission members; provided, however, that appointments shall yield as nearly equal representation as possible over the municipality.

There remains a concern within this Committee that a single, universal approach to the selection of commissioners is not consistent with a concern for the fullest expression of particular attitudes that may exist within a region or an area. It may be a matter of strong local preference to elect the members of the municipal commission. Again, such preferences should be expressed

initially through the elected council. Council should have the opportunity of deciding if an elected municipal electric commission is preferable to an appointed commission. In the event of an elected commission, the council would then determine the method of election, the areas or local municipalities from which commissioners would be elected, and the number of commissioners to be elected from respective areas or municipalities.

It is recommended that:

- 4.3 *The first commission shall hold office for an initial term of at least two years, but not exceeding the term of the council next succeeding that by which it was appointed; provided that before the expiration of such first term, the municipal council shall pass a by-law specifying whether subsequent commissions shall be elected or appointed.*

In the determination of the number of members to be named to an appointed commission, it is expected that the practical size of the commission will be determined by questions of the

geographic size of the municipality to be serviced and the number of customers. It is important that the head of council sits on the commission ex officio. This Committee recognizes that as the authority of local governments is increased, greater demands are placed upon the head of council. The Committee therefore, proposes that the head of council have the option of naming his delegate, subject to council approval, to sit on the commission for its full term.

The Committee considered the appointment of additional council members to the commission. Although no precise guidelines exist in this regard, the Committee suggests that when five members or more are appointed, council representation in addition to the head of council, or his delegate, may be desirable providing that council members do not constitute a majority of the commission.

It is recommended that:

- 4.4 *Commissions be composed of five members,
with options for the minimum number
being three and the maximum seven, including*

*the head of council, or his delegate
and other members of council; provided
that in no case shall members of council
form a majority of the commission.*

SECTION V

ESTABLISHING ELECTRICAL RETAIL AUTHORITIES IN RESTRUCTURED MUNICIPALITIES

The electrical distribution business in Ontario has traditionally demonstrated an ability to adapt to new circumstances and has developed the sensitivity to interacting with the changing demands of the public it serves. It appreciates that the challenges of the future will require adjustments in structure and direction to accommodate the complex requirements expressed either by the customer or by the citizens through government.

Previous sections of this Report have dealt with the development of electrical retail distribution under the jurisdiction of municipal commissions. In this section the Committee focuses attention on the need to redefine the responsibilities between Ontario Hydro and the municipal utilities and to re-align the boundaries of retail electrical authorities to conform with those of municipal government.

Wholesale - Retail Interface

As mentioned in the introduction to this section, there

is a need to redefine the interface between the wholesale function and the retail function of power delivery, particularly with respect to the ownership of plant facilities.

Over the years, Ontario Hydro has supplied the municipal utilities with power at voltage levels ranging from 4,000 volts to 230,000 volts, or combinations thereof. This has occurred largely from the total system adjusting to and accommodating the desires and capabilities of local municipal utilities.

As a result of this mix of supply conditions, Ontario Hydro has owned, operated, and maintained retailing facilities, such as distribution stations and low voltage transmission lines, located within the boundaries of established municipal systems, but which the individual municipal utilities either did not choose or could not afford to own. On the other hand, some local utilities have acquired ownership and operating control of such facilities. When owned by Ontario Hydro, these facilities have been considered to be part of the wholesale system even though, in recent years, it has been recognized that they provide a retailing service to municipal utility customers.

The power costing system has adapted to this mix of plant ownership. By the inclusion of a "specific" charge in the cost of power, an appropriate share of the costs associated with the retailing facilities included in the wholesale system is allocated only to those municipalities using them. To cover the fairly wide variety of situations which have developed, the power costing procedures necessarily contain some complex and empirical features. As a result, it is not always possible to charge all specific costs to individual municipal utilities, so that some of such costs are included in the pooled wholesale cost of power. To this extent, therefore, the principle that only the wholesale cost of power shall be pooled has been set aside. Nevertheless, from a power costing point of view, the interface between the wholesale and retail functions has been defined.

The lack of a consistent physical interface, however, has led to confusion and duplication of work when both parties have to deal with municipal jurisdictions regarding such matters as the acquisition of rights-of-way, zoning,

clearing and trimming, relocation of facilities as well as joint use of plant. These problem areas also give rise to some confusion where plant facilities are shared with other services such as telephone and cable TV. As both wholesale and retail systems continue to expand, this loose arrangement of interface will escalate differences of opinion and misunderstandings and compound the problems associated with joint planning, construction standards, efficient maintenance programs and operations.

Theoretically, the interface could be established at any number of points within the total supply system. The Committee believes that the most appropriate and consistent line of demarcation should be selected to minimize the aforementioned problems and be based on the following criteria:

- . Provide the retail organization adequate scope to satisfy specific needs of most retail customers including the need to respond promptly to customer requirements.
- . Provide for the establishment of effective organizations of sufficient size so that both

the wholesale and retail functions may have the capacity to develop construction and safety standards, maintenance schedules, quality and cost controls, appropriate to the plant under their jurisdiction.

- . Provide an interface which recognizes marked differences in the nature and complexities of the operating and plant maintenance problems on either side of the interface, thus allowing each organization to limit the skills required to operate and maintain the facilities under its sole jurisdiction.

While the Committee agrees in principle with recommendation 1.24 of Task Force Hydro - "That the division of responsibility between the wholesale and retail functions be drawn at the main secondary bus bar of the transformer station", preliminary studies have shown that in many instances this objective can only be attained over a period of time. The harsh economic and technical realities associated with the sudden imposition

of this common interface may be prohibitive. Procrastination in establishing this interface will inhibit realization of any restructuring program. The Committee sees the need to incorporate a specific target date for accomplishment of the recommended interface in local restructuring studies.

Under circumstances where, during a transitional period, it is deemed appropriate to move the interface from the main secondary bus further into the retail system, then the retail organization will be assessed the actual costs of carrying, operating, and maintaining these facilities through the power costing process.

Where conditions are such that the retailing organization owns and operates facilities which, in effect, move the interface further into the wholesale system, these conditions should be permitted if they do not jeopardize the operation of the wholesale system. An appropriate credit will be provided to the retailing organization in its cost of power.

It is recommended that:

- 5.1 *The retailing organization should own, operate and maintain all retail service facilities (50 kV and below).*

Electrical Retail Authorities

In the opinion of the Committee, the re-alignment of service boundaries will encourage the emergence of larger, more self-sufficient retail organizations. Electrical, socio-economic, and geographic considerations are a few of many determinants which could be used in establishing new service territory boundaries. Any of the foregoing bases could provide a retail operation capable of conducting the full range of distribution activities from the transformer station to the consumer but not necessarily conforming to municipal boundaries. However, the technical advantages and short-run economic benefits inherent in these methods of developing service territories are offset by the lack of a strong link with local government. Further, the Committee recognizes that such an organization might have difficulty in meeting the aims of municipal reorganization. The Committee supports

the historic concept that, except where economic considerations dictate otherwise, the distribution of electric energy should be a responsibility of local government.

It is recommended that:

- 5.2 *The responsibility for the retailing of electricity should continue and expand at the municipal level. Further, throughout any area defined by municipal boundaries there should be one retail authority.*

The present role of the retail sector of the Power District has been dealt with in Section II of this Report. In its discussion of various service territories, the Committee gave consideration to the establishment of a single provincial distribution agency. There is no evidence that creation of this type of organization is either warranted or desirable. On the contrary, the preservation of local autonomy and customer responsiveness is best met through retention of individual municipal retail utilities.

As will be discussed later, isolated cases may arise where economic and technical considerations dictate that a complete region or an area municipality may have to be served by the retail sector of the Power District. Where such situations exist, there should be periodic reviews of the circumstances which have created the need for these arrangements and if changes have occurred which permit the establishment of new municipal utilities or the integration of the sector served by the Power District into an existing municipal utility, then such action should be taken.

It is recommended that:

- 5.3 *Wherever retailing of electrical energy remains with the Power District the matter should be subject to periodic review by regional authority and Ontario Hydro.*

The Committee has recommended that responsibility for the retail distribution of electric energy should continue and expand at the municipal level. Because a primary objective in the formation of regional municipalities is to create units of local government capable of providing

from their resources the services their citizens require, it follows that under different conditions either a regional (upper-tier) utility, or a number of area (lower-tier) utilities may satisfy the requirements of the electrical consumers within specific municipal boundaries.

At whatever level the utility is formed, its policies and practices must reflect a sensitivity to local community needs and also be capable of responding to overall social requirements as set forth in provincial policy objectives. This implies that new municipal utilities should be sufficiently similar in characteristics to enable them to relate to Ontario Hydro and other groups in a consistent manner.

While integrating its activities into the local package of services provided at municipal level, the affairs of the new utility should be conducted in a responsible manner so that the organization's involvement and influence will contribute to the development of Hydro's increasing social responsibilities.

There exist a number of established regional governments in which the existing electrical distribution utilities do not match the new municipal structures. It was in some of these regions that the Committee chose to examine the strengths and shortcomings of regional (upper-tier) and area (lower-tier) utilities. The Committee believes that its recommendations and conclusions will be applicable to any future municipal reorganizations.

The new utilities should satisfy the oft-quoted principle that organizations be structured to provide the widest possible authority at the lowest possible decision making level.

Area utilities would, in all probability, provide the customer with better accessibility to the authority. From the customer's point of view, area operation would appear least disruptive in that it occasions minimum departure from the status quo. Area operations necessarily would be confined to a relatively narrow financial base, incur greater re-establishment costs and inhibit the application of uniform customer rates across the region.

Regional electrical utilities would operate from a broader financial basis and should, therefore, have greater capacity to provide a high degree of technical competence and to cope effectively with the exponential growth in the use of electricity. In addition, the upper-tier structure would provide greater flexibility to deal with staff adjustments necessitated by reorganization. The desirability of establishing uniform customer rates and equitable service policies across a region favours regional organizations.

Whether a regional utility, or a number of area utilities satisfies the objectives in a particular regional jurisdiction will be determined only by detailed studies which give due consideration to the factors previously mentioned and which provide recommendations on the viability of various alternatives.

Factors which should be included in determining the self-sufficiency of a particular utility include:

1. Geographic size.
2. Customer density.
3. Load.
4. Potential for growth.

5. Impact on customers including -
 - a) Overall revenue requirements.
 - b) Customer rate levels.
 - c) Service reliability.
6. Existing plant conditions.
7. Adequacy of present construction standards.
8. Adequacy of engineering, customer service, finance, and labour relations expertise.
9. Financial stability.

The Committee recognizes that the foregoing elements are not mutually exclusive and that while some may be quantified, others will require a large measure of judgement to weigh their relative position in an overall assessment.

While recognizing there may be exceptional circumstances, the Committee suggests:

- a) Customer densities in any utility should exceed 15 customers per mile of line.

- b) Establishment of restructured utilities should only be considered for areas with a minimum population range between 10,000 to 15,000 (customer count 3,000 to 5,000).
- c) Increase in revenue requirements attributable solely to the formation of reorganized municipal utilities should not ordinarily exceed 10%.
- d) The forementioned revenue requirements must be related to a class by class rate examination. Percentage increases within specific rate classifications should not exceed 10-15%.
- e) Assessment should be made of the capacity of a regional utility to absorb either financial or technical deficiencies apparent under area operations.
- f) Studies should cover a period of time long enough to provide for phasing out initial impacts associated with restructuring.
- g) Where area operations are being examined, rate disparities between areas should be given attention.

The Committee considers it essential to conduct local studies in each established region before final determinations are made with respect to regional or area electrical utility structures.

It is recommended that:

- 5.4 *Prior to any restructuring of the retail supply authorities within an established region or district, feasibility studies and detailed analysis of possible alternatives be conducted.*

The Committee's assessment of available material has shown that any of the following set of circumstances may be found in a particular local study:

- a) Regional utility viable and all area municipalities within the region viable.
- b) Regional utility viable but one or more area municipalities non-viable.
- c) Regional utility non-viable but one or more area utilities within the region viable.
- d) Regional utility non-viable and no area municipality within the region viable.

The objectives of restructuring electrical utilities may be realized in some regions by municipal utilities at either the upper or the lower-tier and in others only at the upper-tier unless responsibility for retail distribution remains with the Power District in the one or more area municipalities in which a self-sufficient municipal utility cannot be established.

Because this Committee has recommended that the responsibility for retailing of electricity should continue and expand at the municipal level, it suggests that Power District operations be excluded in any region where a regional utility is proven to be viable. Many of the basic principles underlying the provision of municipal services would be violated if residents within an area or group of areas chose to isolate themselves from other citizens in order to gain a slight advantage in their cost of service.

It is recommended that:

- 5.5 *Within a region capable of establishing a self-sufficient regional electrical utility,*

the option of area municipal electrical utilities should not be open if it is clearly apparent that even only one of the area utilities would not be a viable undertaking.

The Committee has developed the following logic chart which it sees as a rational approach to the determination of the most appropriate utility structures within a particular region.

Examination of the preceding chart will demonstrate that the Committee foresees the need to provide for two cases which, although violating some of the recommended principles and criteria are included to cover adequately the total range of circumstances brought to the Committee's attention. Each instance proposes a compromise so that, to the maximum degree possible, responsibility for retail electrical distribution may be assigned to a restructured municipal utility.

The first such case appears in regions not capable of supporting a regional utility. Some area municipalities within these regions may contain one or more existing municipal electrical utilities. Feasibility studies may show that an existing retail utility, or group of them, is capable of supplying complete service within the new area municipal boundaries. In such cases, provision should be made for local option to determine whether an area municipal utility be formed or the area be supplied by the retail sector of the Power District.

It is recommended that:

- 5.6 *Where a regional electrical utility is clearly not viable, and where there does exist one or more municipal electrical utilities within areas of the region, then local option will determine whether the existing supply authority(s) assumes the responsibility for provision of electricity within the new area municipality or whether the retail sector of the Power District will provide the electrical service.*

The second case occurs within regions where upper-tier operation is considered to be viable but where local interests are deemed better served through the establishment of area electrical utilities. Financial constraints may prohibit a particular area municipality acquiring the plant facilities needed to establish a municipal utility. The Committee suggests that rather than turning to the Local System concept, as outlined in Section II, consideration be given to what might be termed a leasing arrangement between the Power District and local authorities. All costs of providing,

operating, and maintaining the plant facilities within the area would be chargeable to the area jurisdiction, although ownership would be vested in the Power District. The major distinction between the foregoing arrangement and that of existing Local Systems within the Power District is the provision of local commission control.

It is recommended that:

- 5.7 *Consideration be given to establishing a procedure whereby an area municipality may lease facilities required to establish an area municipal electrical utility from the Power District.*

SECTION VI

IMPLEMENTATION PROCEDURES

The Committee sees local studies as providing the most appropriate bases for ultimate determination of the new structure(s) for electrical retail distribution within individual regions.

The quality of studies needed demands the development of an organizational structure capable of ensuring that rationalization analyses are properly initiated, accurately conducted and expeditiously concluded.

The provision of general guidelines and criteria will not, in themselves, provide an adequate framework within which the many local studies, now requiring attention, may take place.

The avoidance of haphazard selection of components to be examined and the provision of a well-ordered classification of alternatives indicate the need for a Central Co-ordinating Committee. Such a group would act in an advisory capacity in resolving issues not dealt with directly in any rationalization proposals so far considered.

Where, in this Report, mention has been made of local studies, the Committee wishes to underscore its understanding that the term "local" implies that these studies once initiated, are to be developed, interpreted and finalized by Study Teams drawn from the concerned authorities including existing municipal electric utilities within the jurisdictions being surveyed.

The organization concept devised by this Committee calls for the establishment of two main groups, each having its individual responsibilities and authority yet linked by a marked degree of interdependency required for fulfillment of their respective roles. The following observations do not focus on organizational detail but are confined to major functions and the interrelationship of these functions within the total "study" process.

Central Co-ordinating Committee

(a) Responsibilities

- . Design a study model for use by all local groups, thus providing a common format for the collection, compilation and analyses of pertinent data and

statistics. The study model should also include the methodology for forecasting and provide for a common pattern of displaying conclusions and recommendations.

- . Establish the priorities under which individual studies will be undertaken.
- . In co-operation with local Study Teams, establish budgets and time controls for local studies.
- . Provide required expertise to Study Teams in such matters as engineering, finance, labour relations, and political acumen.
- . Provide interpretation and rationale of the principles and criteria contained in this Report and ensure that individual Study Teams adhere to approved guidelines.
- . Aid in resolving unforeseen problems associated with individual situations.

- . Forward to the Minister of Energy results of local studies along with comments and observations members may have concerning the recommendations contained in these reports.

(b) Composition and Establishment

The Central Co-ordinating Committee should be composed of a chairman, a technical director and a staff of resource personnel skilled in the various disciplines required to cope effectively with the problems associated with rationalization, restructuring and reorganization. In addition, a strong link can be forged between the Co-ordinating Committee and the various Study Teams by including the chairmen of the Study Teams as ex officio members of the Central Committee.

The Chairman and Technical Director should be appointed by the Minister of Energy. Appointment of other members to the group would be made by the Minister on the advice of the Chairman and Technical Director.

It is recommended that:

- 6.1 A Central Co-ordinating Committee to be responsible for the initiation and co-ordination of all local rationalization studies of the electrical distribution utilities be established by The Minister of Energy.

Study Teams

In those parts of the Province now covered by restructured municipal government and in those sectors contemplating studies on the possibilities of local government reform, Study Teams should be established to examine the problems of distributing electricity within new municipalities.

While the teams' specific terms of reference and responsibilities may vary with local needs, this Committee sees the need for a measure of uniformity in the development of useful reviews.

(a) Responsibilities

- . Collect, compile and analyse local data and statistics

in accordance with the procedures set out in the "study model" prepared by the Co-ordinating Committee.

- . Forecast population and electric load growth anticipated to occur within the geographic boundaries under examination.
- . Examine the requirements for re-establishing and separating plant facilities, and provide cost estimates associated with each alternative considered.
- . On the basis of facilities in existing retail jurisdictions, forecast these requirements under the various possible utility organizations and service territories.
- . Prepare financial forecasts of expenditures and revenue requirements associated with the alternatives developed.
- . Provide analyses of customer rate levels required to meet anticipated revenue requirements.

- . Ensure that local interest groups are afforded the opportunity to express their opinions and concerns.
- . Identify problem areas particular and peculiar to the sectors under examination and propose common-sense approaches for resolution.
- . Make full use of the knowledge and expertise of the resource staff attached to the Co-ordinating Committee.
- . Summarize their conclusions and recommendations in a report to local concerned authorities and to The Minister of Energy. The report to the Minister should be conveyed by the Chairman of the Central Co-ordinating Committee; copies to be made available to local concerned authorities.

(b) Composition and Establishment

The chairman of each Study Team should be appointed by the Minister of Energy on the advice of the regional council. The composition of the team should be drawn

from a broad cross section of involved authorities including municipal councils, the O.M.E.A., the A.M.E.U., and Ontario Hydro. The appropriate time to establish these teams should be determined by the Central Co-ordinating Committee which must accomplish considerable work before local studies can be launched.

It is recommended that:

- 6.2 *Study Teams on the distribution of electricity be established in those parts of the province now covered by restructured municipal governments and in those sectors presently developing proposals for local government reform.*

Transition to the New Organization

The Committee has recommended that the decision-making process associated with restructuring of electrical public utilities be governed by the recommendations contained in local studies. The scope and detail that these studies will require indicate that a period of time will be necessary to identify and define the organizational and structural requirements for a given area.

The Committee advocates that details of organizing and staffing the new utility be the responsibility of the initial commission and its senior administrative officer. Therefore, a further period of time will be required between the ultimate decisions on service territory and the commencement of operation of the new utility.

While there is increasing concern among electrical consumers within established regions in the matter of rate disparities, the Committee believes that the time frame within which studies are conducted, commissions appointed, and organizations formed should be of sufficient duration to preclude crash decisions and a progression of readjustments.

It is essential that the selection of the new organization's senior administrative officer be the responsibility of the new commission. It is equally important that the organizational structure be determined by the general manager subject to approval of the commission.

It is recommended that:

- 6.3 A commission be established and commissioners appointed at least three months prior to the reorganization of local utilities. During this period the commission shall have the authority to plan, organize, appoint staff and take any actions necessary to establish the authority. The commissioners would engage the manager to have general control and supervision of the new utility when it begins full operations.

SECTION VII

TRANSFER OF ASSETS & LIABILITIES

Financial Policies and Procedures

In a previous section of this report, the Committee recommended that the responsibility for the retailing of electricity should continue and expand at the municipal level, and further that throughout any area defined or delineated by municipal boundaries there should be one retail electrical authority. It has also been recognized that detailed analysis of a particular region may prescribe the establishment of a regional electrical utility, provision of service through a number of area utilities, or integration of the region into the retail section of the Power District. In a few instances, it may be unavoidable that the distribution of electricity within a region is shared between area utilities and the Power District.

Whatever decision is reached, it will be necessary for new utilities to acquire all, or portions of, the plant facilities of existing utilities operating within the new municipal boundaries. Further, acceptance of the recommendation that new

utilities should, as far as is technically feasible, own, operate and maintain all customer responsive plant (50 kV and below) emphasizes the need to devise ways and means of physically segregating the distribution plant from that of other supply authorities.

The techniques of re-establishing and separating the physical plant at the new service boundaries incur costs which rightfully should be included in charges associated with the acquisition of existing distribution facilities.

In addition to the physical plant associated with the distribution and control of electricity, existing utilities will have other assets, such as liquid assets, rolling stock, inventories, office and service buildings, etc. which logically must be taken over by the new utility.

Liabilities now the responsibility of utilities contained within the boundaries of the newly created entity will become a responsibility of the successor utility. Customers of each existing utility have acquired an equity in their respective

distribution systems and at the same time, the municipal utilities have acquired equity in the wholesale system on behalf of their customers.

Retail equity represents the degree of ownership of retail distribution facilities acquired by the customers of either a municipal electrical utility or by rural customers of the Power District. Where customers are transferred from Ontario Hydro to a municipal utility, from municipal utility to municipal utility or from a municipal utility to Ontario Hydro, the retail equity associated with such assets is transferred with the customers.

Wholesale equity under the terms of The Power Commission Act, is established through the annual provision of money to a sinking fund which, improved by interest at 4%, is sufficient to retire the outstanding debt in forty years. As the provision for retirement of debt is one element of the cost of power, the members of the co-operative build up ownership of, or equity in, the assets of the wholesale system. The wholesale equity credited to member municipal utilities represents their share of the total equity in the wholesale, or bulk power, system.

Unlike locally initiated municipal annexations and amalgamations where the major utility either extended its service territory into the Power District or absorbed smaller utilities, municipal government reform has created conditions which call for the establishment of completely new electrical retail organizations with a need to commence operation under the most favourable financial circumstance but not at the expense of another party.

As indicated in the introduction of this Report, a number of costs will be incurred in the restructuring process which will be reflected in higher levels of customer rates. These costs should be minimized either through the selection of the least costly option, (where more than one means to an end exist), the amortization of such charges over a period of time, or the application of a warranted external subsidy.

It is recommended that:

- 7.1 *The accounting and financial processes associated with the transferring of assets and adjustment of associated*

*equity should not, of themselves,
increase costs significantly to any
electrical customers.*

Traditionally, many public utilities have been responsible for a variety of other public services such as water, gas and transportation. Under such circumstances, the utility was able to realize certain economies through the sharing of common office accommodations, stores facilities, mobile equipment, communication systems, appliances and staff. Assets and other facilities of these public utilities were acquired from revenues or from capital contributed by the customers of the various services for which the utility was responsible.

With the development of the electrical sector into a separate operation by the transfer of other services to direct municipal control, it is necessary that the electrical utility retain ownership of those facilities it has acquired out of revenue from the sale of electrical energy or out of capital contributed by electrical customers. It is recognized, however, that such assets, if not required by the electrical utility, could be transferred to another municipal public service but

only if there is agreement to the transfer with appropriate compensation that protects the electrical customers' investment in the asset.

It is recommended that:

- 7.2 *Transferred assets acquired through revenues derived from electrical utility rates or from capital contributed by electrical customers remain assets of the new municipal electrical utility.*

The Committee has devoted considerable time to the examination of procedures for the transfer of assets and has developed a number of recommendations which accommodate differences in methods of establishing the depreciation on assets, interest rates associated with outstanding debt, the establishment of a time payment plan and other criteria which will minimize the effect on customer rate levels resulting from the costs associated with the transfer of assets.

Ontario Hydro's retail assets have different useful lives and are subject to different schedules of depreciation. The

present practice of determining the age and actual depreciation for each unit of transferred plant leads, however, to reasonably accurate results.

It is recommended that:

- 7.3 *The net transfer cost of retail distribution assets transferred from Ontario Hydro to a municipal utility be set equal to the original cost of the assets less the sum of the accumulated retail equity and the accumulated depreciation associated with them. Wholesale equity associated with these assets is to be transferred from the Power District to the equity account of the acquiring municipal utility.*

The Committee does not consider it appropriate to recommend any adjustment in respect of wholesale equity. The concept that the ownership of the wholesale assets is vested in all electrical users in Ontario through their local utility is not disturbed by an amalgamation of such utilities. Allowing wholesale equity as a reduction in transfer cost would be asking the wholesale

system to subsidize the transfer and all customers would suffer the loss. Granting a utility its pro rata share of this wholesale equity as a reduction in the cost of transferred assets would simply be allowing it to cash in some of its wholesale equity in Ontario Hydro while retaining all the benefits of membership in the system. For these reasons, it cannot be allowed as a credit or reduction in the transfer cost of wholesale plant.

It is recommended that:

- 7.4 *The net transfer cost of wholesale or bulk power system assets transferred from Ontario Hydro to a municipal utility be set equal to the original cost of such assets less the accumulated depreciation associated with them.*

The transfer of all assets from an existing municipal utility to a new municipal utility requires only the consolidation of the books of the two or more electric utilities or where only a portion of one or more utilities is involved, the consolidation of suitable pro rata portions covering the assets involved.

It is recommended that:

- 7.5 Transfers of retail distribution system assets from one municipal utility to another or from a municipal utility to Ontario Hydro be confined to the following three cases:
- a) Where a new municipal utility absorbs and assumes complete responsibility for the retail distribution of electrical energy to the customers of one or more existing utilities, the assets of the new utility shall include all the assets of the predecessor utility or utilities and the liabilities of the new utility shall include all the liabilities of the predecessor utility or utilities.
 - b) Where distribution assets are transferred from one municipal utility to another or to Ontario Hydro without any transfer of customers from the one jurisdiction to the other, the transfer cost shall be established either at the original cost less accumulated depreciation or at an appraised value by arm's length negotiation by the utilities involved.

- c) Where a group of customers being only part of the customers served by a municipal utility, together with that part of the retail distribution system assets by which they are served and which are required for the continuation of service, are transferred to another utility or to Ontario Hydro, the net transfer cost of the assets so transferred shall be equal to the original cost less accumulated depreciation less such appropriate pro rata portion of the customers' equity in the relinquishing utility as shall leave the remaining customers' appropriate specific equity in that utility unchanged by the transfer. Wholesale equity associated with these assets is to be transferred to the equity account of the acquiring electrical utility.

In the above recommendation, customers' equity in a municipal utility is defined as the sum at the date of transfer of debentures redeemed, accumulated revenue surplus retained for working funds or for investment in fixed and liquid assets, and contributed capital. Specific equity may be defined in terms of customers, load, annual revenue or accumulated depreciation. The most appropriate basis for allocating this specific equity between

customers transferred to the new utility and those remaining with the predecessor utility should be the subject of further study.

Time Payment Plan for the Acquisition of Assets

The Committee can foresee the desirability, and in many cases the necessity, for the establishment of some central agency to provide to the acquiring utilities some method of time payment plan. In addition to providing more uniform interest rates for needed borrowings, this method might also allow the municipalities to utilize their surpluses, if they exist, more effectively. The Provincial Treasury or Ontario Hydro seem to be most appropriate agencies to establish and manage such a plan. The Committee noted that whatever plan was devised the repayment schedule should be such that payments during the initial years should be minimal thus permitting annual load growth to lessen the impact on customer rate levels.

It is recommended that:

- 7.6 *Time payment plans funded either by the Province of Ontario or by Ontario Hydro*

be made available to new municipal electrical utilities for the payment of the net transfer cost of assets transferred to the new utilities and for other assets required consequent to the establishment of such new municipal utilities and that the repayment schedule of such plans be designed so as to minimize the payments in the first years following such establishment.

Valuation of Assets

In its examination of existing studies of restructuring the Committee noted that the book value of assets had been used in the cost analysis. It was further observed that many past annexations had required physical inventories of plant before agreement could be reached on the transfer price. In the overall context of restructuring the Committee feels that the book value should be sufficient not only for this Committee's work, but also for the detailed regional studies that have been recommended elsewhere in this report. Many local study groups may feel, however, that the best interests of their community will only be served if physical inventories are taken. These

study groups and the utilities involved should clearly understand that such physical inventories will incur considerable additional costs which should be borne by the utilities requesting them.

It is recommended that:

- 7.7 *When physical inventories are required to obtain the net transfer cost of transferred assets, the costs incurred be assumed by the utility(s) requiring the physical inventories.*

It is recommended that:

- 7.8 *If a dispute arises over the net transfer cost and the terms and conditions of transferring assets, the matter be referred to arbitration as set forth in Section 62 of the Public Utilities Act. (RSO 1970, Chapter 390)*

Grants-in-Aid

In order to assist in the electrification of the rural (agricultural) areas of the Province, in 1921 the Provincial Government initiated a program of providing, to Ontario Hydro,

a grant equated to 50% of the capital costs of acquiring and constructing rural retail system facilities. In January of 1958, it was decided that while grants-in-aid would continue to be necessary in the extension of electric service in Northern Ontario, grants-in-aid could be discontinued in Southern Ontario.

Over the years as municipal corporations grew, and expanded their boundaries through the process of annexation it was necessary for the municipal utility to acquire and operate segments of the rural facilities contained within the involved area. At the time the 1958 agreement to terminate grants-in-aid in Southern Ontario was consummated, it was established practice for Ontario Hydro to return to the Province grants-in-aid associated with the plant transferred. In January of 1958 the Province relinquished any claims to a refund of past grants in Southern Ontario and it was determined that grants associated with future transfers of rural assets would be credited to the consolidated rural power district, free of interest.

The established regional governments have occurred in areas of high rural density, those areas which by their nature provide

the necessary revenues to support the application of uniform rural retail rates across the Province. The absorption of these sections by regional or area electric utilities could, by reducing its financial base, place a burden on the remaining customers of the rural retail system. The existing policy of crediting past grants-in-aid, associated with rural facilities transferred to new utilities, as an interest-free credit to the consolidated rural power district will aid in containing escalating electric costs to the remaining rural customers.

It is recommended that:

- 7.9 *Past grants-in-aid from the Provincial Government associated with rural distribution facilities remain with the Consolidated Rural Power District.*

The Committee recognizes that, in theory, retention of grants-in-aid by the Power District could lead to the development of rural rates below average regional rates. It also recognizes that the provision of electric power is an aid to settlements in Northern Ontario including the extension of electrical supply to

camps, cottages and recreational areas through the Province. Loss of the high density, heavy revenue sectors of Southern Ontario could lead to the position where a viable rural operation might only maintain acceptable rates with the provision of some form of financial assistance.

It is recommended that:

- 7.10 Recognition be given to the fact that restructuring of electrical utilities in Southern Ontario will diminish the rural retail sector of the Power District to such an extent that if continued expansion into the sparsely settled areas of the Province is required, it may only be feasible through some subsidization program.

SECTION VIII

TRANSFER OF STAFF

Information Programs

Restructuring of electrical utilities will not only involve a series of personnel changes but will require many individuals presently employed in the electrical distribution function to integrate into new and different organizations. In many cases, tradesmen will be required to develop additional skills to adequately operate and maintain plant built under varying engineering and construction standards. Accident prevention programs and safe working practices will have to receive priority consideration so staff may cope with the complexities of a supply system composed of several smaller systems devised under dissimilar design criteria. Indeed, in many cases retraining programs will be a prerequisite to safe and efficient plant maintenance and operations.

The passage from one set of circumstances to another can be made with the minimum of disruption and ostensible problem areas can become opportunities for the new utility to enhance

service to the public and job satisfaction even though some staff may expect the process to be one of personal disruption and dissatisfaction.

A well designed information and educational program can be extremely valuable in establishing high morale and motivating staff towards new goals. Such programs should highlight the opportunities available for personal development and advancement provided by the broader based organization.

There is no doubt that employees' attitudes and outlooks can have a marked influence on what customers think of an organization. A credible and relevant flow of dialogue with concerned personnel will assist in developing good staff attitude with the public and aid in establishing the new organization as an asset to the future growth and development of the community.

The information programs envisaged by the Committee would avoid conjecture, rumours and resentment by staff who would not otherwise have the benefit of the "whys" and "hows" of regionalization.

It is recommended that:

- 8.1 *Educational and information programs be developed at the earliest possible date. These programs, directed to all staff members concerned, should fully explain the implications of restructuring local governments and the utilities. It is appropriate that the Provincial Government take the initiative in this regard.*

Labour Relations

Whatever form utilities take under regional government there are bound to be many implications in the area of labour relations.

The question of union jurisdiction(s) must involve the new commissions. The negotiation of new labour agreements should be the responsibility of the new commissions.

Later in this Report reference will be made to a number of employee benefits which the Committee sees as requiring assurance of continuation through legislation. However, the majority of problems which will occur in the labour field are best resolved at the local level.

The reason the Committee has avoided the development of general guidelines in the labour relations field is its understanding that such matters are now contained in legislation and patterns of resolution have been established through precedent.

In the opinion of this Committee all the rights and obligations of the old commissions flow to the new entity. Alternatively, the new commission or any of the unions which may have an interest may apply to the Ontario Labour Relations Board under section 55 of The Labour Relations Act, R.S.O. 1970 c.232 for a declaration that the new commission is a successor employer. The Board would then have to declare an appropriate bargaining unit in terms of both geographic area and the included and excluded personnel. The first aspect, that of area, would probably be confined to the territory covered by the new body. The Board will have to deal with the inclusion and exclusion of personnel, a problem that will recur several times at later stages.

Each of the predecessor utilities may have had different lines of supervision with the result that certain classifications

in the one instance may have been excluded from the bargaining unit, while in others they may have been included.

It is conceivable that the collective bargaining relationships of new utilities may be different from those previously experienced. Initially, two unions and various locals will be involved in the majority of cases.

The Committee anticipates that once the Board has determined the bargaining unit, it will order that a representation vote be conducted among all affected employees. The employees will have an opportunity to vote for any of the unions that may be involved, and the successful party(s) will be declared as the bargaining agent(s). (Section 55 (c) and (d) apparently provide for other alternatives). Once the bargaining agent(s) has been declared for the new utility, it is entitled to give notice to the employer of its desire to bargain. It appears immaterial that some of the predecessor employers may have concluded new collective agreements just prior to the merger which were supposed to run for a number of years. These agreements seem to be at an end although regional government legislation to date has tended to "lock in" some contractual obligations.

Employee Benefits

As has been mentioned previously, there are a number of employee benefits the Committee views as warranting an assurance of continuation when employees move from one organization to another. The attitude of staff will be impaired if members are required to forfeit major personal security items. However, it would be unreasonable for staff to expect unwarranted improvements in working conditions and wages through the establishment of restructured utilities.

The maintenance of major earned benefits is of sufficient significance to a viable undertaking that this Committee recommends matters pertaining to employment, pensions, life insurance and sick leave be assured through legislation such as might be contained in The Power Corporation Act.

It is recommended that:

- 8.2 *Legislation be enacted to assure existing utility employees a guaranteed period of employment and the protection of major earned benefits.*

a) Employment

The Committee did not see that overstaffing would present a problem in any of the regions studied. Economies of scale may be achieved in some instances permitting slight staff reductions over the long term which will be achieved through normal attrition. It follows that staff now presently associated with the distribution facilities would be required in the new organization, although not necessarily in an identical capacity. Existing regional legislation provides certain guarantees of employment to municipal corporation employees and the Committee believes that similar guarantees should be extended to the utility staff.

It is recommended that:

8.3 *The new electrical utility commission shall offer employment to any person formerly employed by a municipal corporation, commission or Ontario Hydro and who is designated by that previous employer as having been continuously employed in the distribution and supply of power within the designated area for at least one year immediately prior to the date the utility was established.*

8.4 Any person who accepts employment in the new utility shall be entitled for a period of one year from the date the new supply authority was established, to receive a wage or salary of not less than that to which he was entitled in the ninth month prior to the termination of his employment with his previous employer.

b) Pensions

The need for understanding and care in the treatment of people involved in reorganization cannot be over-emphasized, particularly in respect to their pension benefits. While recognizing problem areas may develop, the Committee believes every safeguard should be made to ensure that employees affected will in no way suffer a loss in this major component of present-day benefit programs. The need to achieve some standardization of pension benefits within a new supply authority should not, in the first instance, be met at the cost of instituting retroactive benefits at the level of the most advantageous pension system assumed by the authority. Legislation should not inhibit the normal process of bargaining as it relates to future employee benefits.

It is recommended that:

8.5 *Employees transferring from existing supply authorities to new electrical utilities be ensured of retaining full entitlement to all pension rights and benefits provided with and by the predecessor authority.*

c) Medical Services & Sick Leave

Current health plans provide adequate basic health protection and portability of coverage. There will arise certain medical problems related to changes from one organization to another. Most of these will relate to hazards encountered in the work environment and the physical ability of some employees to cope with an expanded and more complex distribution system. The Committee has not made an attempt to provide guidelines in such circumstances relying on the new utility management to cope with these matters in a humane manner. However, the Committee is concerned that no transferee shall forfeit any sick leave credits he may hold with his employer at the time of transfer. Cognizance has been taken of the many and varied ways credits are

accumulated and that in certain cases all or portions of unused credits may be claimed upon retirement or termination of service. The Committee suggests that appropriate sick leave plans should be available in the new utility structure.

It is recommended that:

8.6 *Employees transferring to a new municipal utility be credited by their new employer with any sick leave credits, and vested rights therein, upon termination of their employment with their previous employer. It is recognized these entitlements may be unassociated with sick leave plans of the successor utility.*

d) Life Insurance

At present, the majority of municipal electrical utilities provide life insurance coverage to employees, and personnel of Ontario Hydro have similar although not identical coverage. The amount and type of insurance varies between utilities as does the employee's share of premiums. The Committee believes that provision of life insurance comparable to policies now carried by employees should be available to transferees.

It is recommended that:

- 8.7 *The new electrical utility shall be required to provide life insurance for transferees at levels not inferior to existing plans carried by their prior employer at date of transfer. Where existing utilities are contributing towards life insurance policies of pensioners, then the successor utility will continue these arrangements.*

SECTION IX

FINANCING OF RESTRUCTURED UTILITIES

Provision of Capital Requirements

Traditionally, municipal utilities have acquired funds for the capital expansion of their distribution systems from revenue and through the issuing of debentures by the municipal corporation. For many years, during a period of relatively stable growth, normal capital expansion could be met from a net income level (revenue less operating expenses) of approximately 5 to 10% with unusual or significant capital expenditures such as required for substations or buildings being financed through a debenture issue.

In recent years, however, particularly in municipalities experiencing an accelerated level of growth, more reliance has been placed on borrowed funds to finance the utility's capital expansion requirements. The restructured utilities located within regional government areas, where growth in itself has been a factor behind the municipal government reform, will undoubtedly face the requirement to finance a large portion of their capital expansion through external borrowings.

The Committee recognizes that the availability of borrowed funds is limited and that as increasing demands are placed on the market by many segments of society, utilities may experience some difficulty in obtaining funds from this source. Nevertheless, the recognized need for external financing led to a review of various alternatives.

Existing legislation provides that the issuance of debentures is the responsibility of the municipal corporation and within regional municipalities it is the responsibility of the regional council. While the distribution of electric power within a municipality is financially self-supporting, the requirement that the municipal corporation issue debentures for purposes of the electrical utility presents the potential of competition for limited local resources. From time to time, therefore, municipal councils have been reluctant to issue the debentures required by the electrical utility.

Consideration was given to permitting the utility to go directly to the market for the required funds. Such a procedure was not deemed to be feasible as in effect the utility would still be competing for funds with the municipality.

Another alternative involved the issuance of bonds by Ontario Hydro to cover its financing requirements and that of the municipal utilities. As this might have some effect on Ontario Hydro's rating in the financial market, this alternative did not appear to be practical.

The establishment of some form of a central financing authority similar to a credit union appears to offer a possibility to minimize the financing problems for municipal electrical utilities. It is envisaged that Ontario Hydro and the municipal utilities would be members of this "credit union" and presumably would invest surplus funds as well as obtaining their required borrowings through this organization.

It is recommended that:

- 9.1 *Further consideration be given to the establishment of an Ontario Hydro-municipal electrical utility type of credit union as an alternative to the traditional methods of obtaining borrowed funds.*

The Committee recognizes, however, that at the present time and in the foreseeable future, the expansion of all

municipal services will place heavy demands for funds on the new regional councils. These councils will be concerned to maintain the financial integrity of their region in the financial markets. It will be necessary, therefore, for the new regional councils to exercise their authority to regulate the overall flow of funds for capital purposes. The established principle of council review of the electrical utility's debt financing should be maintained.

After reviewing various alternatives, therefore, the Committee considers that the present established practice of obtaining borrowed funds through the municipal corporation or the regional council remains most appropriate, at least until such time as the creation of the credit union type of financing authority might prove to be practical.

Working Funds

Working funds of a municipal electrical utility are defined as current assets less current liabilities. Essentially, they are the quick assets of the utility available at any point in time to meet immediate expenditures such as the payroll,

monthly power bill and other liabilities before additional revenue is obtained through the billing process. The measure of the adequacy of working funds relates to the utility's net operating expenses which include the total operating and administrative expenses of the utility but not the annual depreciation provision.

The level of required working funds varies between utilities and primarily depends on local factors such as the size of the utility, frequency of customer billing, cash flow and rate of growth. Obviously, a small utility that bills all customers at the same time every one or two months will require working funds that are a larger percentage of net operating expenses than a large utility with more frequent billing cycles providing a more regular cash flow. In general, experience has shown that electrical utilities can maintain a viable financial position at reasonable cost to their customers if working funds in the order of one to two month's net operating expenses are available.

The working funds immediately available to the restructured

utility will reflect the current assets less current liabilities position of the existing utilities that form the new unit. With the advent of regional government and the realization that there would ultimately be a reorganization of the utilities, some municipal electrical utilities have tended to dispose of surplus working funds and operate with a minimum of available funds. At the same time, increasing costs and practical limitations on rate increases has resulted in a generally lower level of working funds than was available in previous years.

A further limitation on immediately available working funds will effect those restructured utilities where a substantial portion of their service area was formerly a part of the rural retail system. In such cases, no working funds will be transferred to the new utility from the rural system, and as a result, the initial working funds may be lower than the recommended level.

It is recommended that:

9.2 *While the required level of working funds will vary depending on such factors as the*

restructured utility's size, cash flow and rate of growth, in all cases working funds should be equivalent to 20 to 45 days of net operating expenses.

The Committee recognizes that it will not always be possible to attain the recommended level of working funds upon the establishment of the restructured utility, particularly if a significant portion of the rural system is involved. In such cases, the Committee proposes that the required level of working funds be phased-in or achieved over a period of time which could vary depending on the utility's rate of growth, expenses and practical limitations on rate increases. On the other hand, if it is necessary to issue debentures at the time the new utility is established, the initial minimum working funds may be a part of such borrowing requirements.

Retail Rates

As noted elsewhere, the level of retail rates applicable to customers of the restructured utility will be a most significant criteria on which the final decision respecting the reorganization of existing electrical utilities is based.

The retail rate levels of existing municipal utilities vary depending on such factors as the cost of purchased power, load growth, local expenses and methods of financing capital expansion. Historically, rates applicable to customers of the rural retail system, in general, have been higher than municipal utility retail rates. This traditional difference between rural and municipal rate levels has been changing with the result that the margin between them has narrowed in recent years and, in some cases, the municipal utility has been required to establish a residential retail rate equal to or above the rural suburban rate.

Within an existing municipal utility, service is provided at a common rate per class of customer. That is, all residential customers are billed under one rate structure with non-residential customers billed at either commercial and industrial power rates or, more recently, at the general rate. This same pattern is applicable in the rural system except that there are two levels of residential rates depending on the density of customers per mile of rural distribution system line.

The Committee believes that, in general, the traditional municipal utility concept of one rate per class of customer should be applicable to the restructured utility. It is recognized, however, that if the restructured utility administers a wide geographic area with varying densities of population, two levels of residential rates based on customer density might be warranted, at least in the early years of development of the new utility. Such an arrangement should be viewed as a temporary measure only, as it violates a basic concept of regional government to equalize costs and benefits over a wider area. In addition, there will undoubtedly be customer pressure to adopt a uniform rate as this is one of the advantages customers believe they will gain through consolidation.

In view of the variance in existing retail rate levels, the establishment of a restructured utility with one rate per class of customer will affect customers differently and to varying degrees. Some customers will enjoy the benefit of a reduction in rates, whereas others will experience an increase which, in some cases, could be quite significant.

The Committee considers that the financial impact on customers due to new rate levels should be minimized as much as possible .

The rates required by the restructured utility will depend on several factors including costs which may be incurred through the need to re-establish and physically separate the distribution system from adjoining utilities, and also certain other transitional costs associated with the administrative and operational facilities that may be required to establish the new utility. The Committee suggests that such re-establishment and transitional costs should not influence the retail rate levels required as such costs are essentially beyond the control of the new utility and will ultimately benefit neighbouring electrical utilities established at a later date.

It is recommended that:

- 9.3 *The re-establishment and separation costs of the physical plant and the transitional or start-up costs associated with the restructured electrical utility be met through external provincial subsidy.*

Despite the proposed subsidy as recommended above, the equalization of rates to the various classes of customers within the restructured utility will still have a varying effect on customers. In general, where the increase in rates to some customers is reasonable (up to approximately 10%), no major problem should be experienced. There will be situations, however, where some customers may realize no significant improvement in service, but will be required to meet significant increases in rates. In such cases, the ultimate rate level should be "phased-in" by limiting the annual increase to the affected customers to a reasonable amount. Depending on the severity of the increase, the phasing-in process could extend over a period of one to three years.

If some customers within a restructured utility receive the benefit of reduced accounts throughout this phasing-in period, the other customers of the utility would effectively be obliged to pay at higher rates to meet the shortage of revenue received from the group of customers receiving the phasing-in discounts. The Committee does not accept that

retail rate levels in the restructured utility should be set to recover the costs incurred by the short-term phasing-in of sharp increases to some customers in a specific class.

It is recommended that:

- 9.4 *Where the new retail rate levels required by the restructured utility will result in significant increases in customers' accounts, a phasing-in procedure be adopted by discounting the customers' accounts for a specified period of time to minimize the impact of the new rate level and that the costs of this phasing-in process be met through external provincial subsidy.*

Capital Requirements from Revenue

Historically, the existing municipal electrical utilities have financed a large portion of their capital requirements from revenue. While the original purchase or establishment of the municipal distribution system was financed through debenture issues, these original debentures have been redeemed to a large extent and the subsequent capital expansion of the municipal systems has generally been met

from revenue except for major, non-recurring, capital expenditures such as substations or buildings. This general trend in financing is indicated by the debt/equity ratio of 16:84 at December 31, 1972 for the municipal utilities in total.

Despite this reliance on revenue financing, the municipal electrical utilities have been able to retain favourable retail rate levels. In recent years, however, with more rapid rates of growth in a period of escalating costs, it is evident that some utilities could have achieved lower annual financing costs and, hence, lower retail rates by placing more emphasis on debt financing and less on revenues from existing customers. It is also evident that in the future, it will be necessary to give more consideration to debt financing, particularly where the municipality is expected to experience a prolonged rapid rate of expansion.

It is not practical to specify precise rules for the financing of capital expansion by the restructured utility. These new utilities will be faced with steady growth which would indicate the need for debt financing. Limitations on

the availability of borrowed funds may impose certain constraints and thus dictate the amount of capital to be financed from revenue. The rate of expansion and the restructured utility's capacity to carry debt will have a bearing on the method of financing new capital.

In view of these considerations and the fact that local circumstances may differ and suggest different alternatives in each restructured utility, the Committee considers that the ratio of debt financing to revenue financing should be left to the discretion of the new utility management and commission in consultation with the regional council and Ontario Hydro. As a general guideline, where there is a relatively high capital requirement, the Committee suggests that a greater proportion of the restructured utility's annual capital requirements be debt financed rather than financed from current revenues.

Capital Contributions

The Committee is concerned with a developing practice of some existing utilities to require a developer, builder or

subdivider to contribute capital to the utility to cover the entire cost of the new electrical distribution facilities. Such charges are ultimately assumed by the new resident or customer through a higher purchase price or higher rent for his home.

This practice is highly discriminatory to the electrical customers occupying these homes. The standard retail rates are designed to recover the costs of financing a distribution system, but as no differential is allowed in the rate to customers who have made capital contributions for the full cost of the distribution system constructed to serve them they are effectively paying twice for these facilities.

Originally, most utilities required a capital contribution to cover the difference in costs between an overhead and underground distribution system. Such a policy is defensible as the retail rate recovered the cost of a standard overhead system and the capital contribution effectively represented the added value that the customer obtained from an underground system. The extension of capital contributions to cover the entire cost of distribution systems (underground or overhead)

developed as utilities and/or the municipal corporation became reluctant to embark on a program of debt financing, and at the same time were restricted in their revenue financing by practical rate limitations.

The Committee supports the recommendation of Task Force Hydro that "the cost of a standard overhead system be included in the retail rates with any additional cost for a higher value underground system to be borne by the new customers". The policies of the restructured utilities respecting contributed capital should conform to this recommendation as the Committee deplores the growing discriminatory practice of some existing municipal utilities, many of which will be incorporated in the new restructured utility.

SECTION X

SUMMARY OF RECOMMENDATIONS

Section I - INTRODUCTION

Section II - HISTORICAL AND STATISTICAL
OUTLINE OF RETAIL DISTRIBUTION SYSTEMS

Section III - LOCAL GOVERNMENT AND
RETAIL ELECTRICAL DISTRIBUTION

- 3.1 *Legislation pertaining to the organization and authority of organizations responsible for the retail distribution of electricity be reviewed and where possible be consolidated within the framework of a single act governing the composition of municipal utilities.*
- 3.2 *The Power Corporation Act be amended to include provisions for the retail distribution of electric energy by a regional municipal electrical authority.*
- 3.3 *Future studies of local government institutions leading to the reorganization of municipalities extend to and include studies of the retail electric distribution system.*
- 3.4 *Control of the retail distribution of electricity be exercised under the municipal commission form of organization and that this form of organization be extended to the regional distribution authorities as they are established.*

Section IV - COMMISSION STRUCTURE

- 4.1 Where the members of municipal electric commissions are appointed they be named by the elected municipal council corresponding to the area or region within which the commission operates.
- 4.2 Except for the head of council the members of the first commission should be appointed from the body of existing retail electric commission members; provided, however, that appointments shall yield as nearly equal representation as possible over the municipality.
- 4.3 The first commission shall hold office for an initial term of at least two years, but not exceeding the term of the council next succeeding that by which it was appointed; provided that before the expiration of such first term, the municipal council shall pass a by-law specifying whether subsequent commissions shall be elected or appointed.

Section IV - Cont'd

- 4.4 Commissions be composed of five members, with options for the minimum number being three and the maximum seven, including the head of council, or his delegate and other members of council, provided that in no case shall members of council form a majority of the commission.

Section V - ESTABLISHING ELECTRICAL RETAIL AUTHORITIES IN RESTRUCTURED MUNICIPALITIES

- 5.1 The retailing organization should own, operate and maintain all retail service facilities (50 kV and below).
- 5.2 The responsibility for the retailing of electricity should continue and expand at the municipal level. Further, throughout any area defined by municipal boundaries there should be one retail authority.
- 5.3 Wherever retailing of electrical energy remains with the Power District the matter should be subject to periodic review by regional authority and Ontario Hydro.

Section V - Cont'd

- 5.4 *Prior to any restructuring of the retail supply authorities within an established region or district, feasibility studies and detailed analysis of possible alternatives be conducted.*
- 5.5 *Within a region capable of establishing a self-sufficient regional electrical utility, the option of area municipal electrical utilities should not be open if it is clearly apparent that even only one of the area utilities would not be a viable undertaking.*
- 5.6 *Where a regional electrical utility is clearly not viable, and where there does exist one or more municipal electrical utilities within areas of the region, then local option will determine whether the existing supply authority(s) assumes the responsibility for provision of electricity within the new area municipality or whether the retail sector of the Power District will provide the electrical service.*

Section V - Cont'd

- 5.7 Consideration be given to establishing a procedure whereby an area municipality may lease facilities required to establish an area municipal electrical utility from the Power District.*

Section VI - IMPLEMENTATION PROCEDURES

- 6.1 A Central Co-ordinating Committee to be responsible for the initiation and co-ordination of all local rationalization studies of the electrical distribution utilities be established by The Minister of Energy.*
- 6.2 Study Teams on the distribution of electricity be established in those parts of the province now covered by restructured municipal governments and in those sectors presently developing proposals for local government reform.*
- 6.3 A commission be established and commissioners appointed at least three months prior to the reorganization of local utilities. During this period the commission shall have the*

Section VI - Cont'd

- 6.3 authority to plan, organize, appoint staff and take any actions necessary to establish the authority. The commissioners would engage the manager to have general control and supervision of the new utility when it begins full operations.

Section VII -TRANSFER OF ASSETS AND LIABILITIES

- 7.1 The accounting and financial processes associated with the transferring of assets and adjustment of associated equity should not, of themselves, increase costs significantly to any electrical customers.
- 7.2 Transferred assets acquired through revenues derived from electrical utility rates or from capital contributed by electrical customers remain assets of the new municipal electrical utility.
- 7.3 The net transfer cost of retail distribution assets transferred from Ontario Hydro to a municipal utility be set equal to the original cost of the assets less the sum of the accumulated retail equity and the accumulated

Section VII - Cont'd

- 7.3 depreciation associated with them. Wholesale equity associated with these assets is to be transferred from the Power District to the equity account of the acquiring municipal utility.
- 7.4 The net transfer cost of wholesale or bulk power system assets transferred from Ontario Hydro to a municipal utility be set equal to the original cost of such assets less the accumulated depreciation associated with them.
- 7.5 Transfers of retail distribution system assets from one municipal utility to another or from a municipal utility to Ontario Hydro be confined to the following three cases:
- a) Where a new municipal utility absorbs and assumes complete responsibility for the retail distribution of electrical energy to the customers of one or more existing utilities, the assets of the new utility shall include all

Section VII - Cont'd

- a) the assets of the predecessor utility or utilities and the liabilities of the new utility shall include all the liabilities of the predecessor utility or utilities.
- b) Where distribution assets are transferred from one municipal utility to another or to Ontario Hydro without any transfer of customers from the one jurisdiction to the other, the transfer cost shall be established either at the original cost less accumulated depreciation or at an appraised value by arm's length negotiation by the utilities involved.
- c) Where a group of customers being only part of the customers served by a municipal utility, together with that part of the retail distribution system assets by which they are served and which are required for the continuation of service, are transferred to another utility or to Ontario Hydro, the net transfer cost of the assets so transferred shall be equal to the original cost less accumulated depreciation

Section VII - Cont'd

c) less such appropriate pro rata portion of the customers' equity in the relinquishing utility as shall leave the remaining customers' appropriate specific equity in that utility unchanged by the transfer. Wholesale equity associated with these assets is to be transferred to the equity account of the acquiring electrical utility.

7.6 Time payment plans funded either by the Province of Ontario or by Ontario Hydro be made available to new municipal electrical utilities for the payment of the net transfer cost of assets transferred to the new utilities and for other assets required consequent to the establishment of such new municipal utilities and that the repayment schedule of such plans be designed so as to minimize the payments in the first years following such establishment.

7.7 When physical inventories are required to obtain the net transfer cost of transferred assets, the costs incurred be assumed by the utility(s) requiring the physical inventories.

Section VII - Cont'd

- 7.8 If a dispute arises over the net transfer cost and the terms and conditions of transferring assets, the matter be referred to arbitration as set forth in Section 62 of the Public Utilities Act. (RSO 1970, Chapter 390)
- 7.9 Past grants-in-aid from the Provincial Government associated with rural distribution facilities remain with the Consolidated Rural Power District.
- 7.10 Recognition be given to the fact that restructuring of electrical utilities in Southern Ontario will diminish the rural retail sector of the Power District to such an extent that if continued expansion into the sparsely settled areas of the Province is required, it may only be feasible through some subsidization program.

SECTION VIII -TRANSFER OF STAFF

- 8.1 Educational and information programs be developed at the earliest possible date. These programs, directed to all staff members concerned, should fully explain the implications of restructuring

Section VII - Cont'd

- 8.1 local governments and the utilities. It is appropriate that the Provincial Government take the initiative in this regard.
- 8.2 Legislation be enacted to assure existing utility employees a guaranteed period of employment and the protection of major earned benefits.
- 8.3 The new electrical utility commission shall offer employment to any person formerly employed by a municipal corporation, commission or Ontario Hydro and who is designated by that previous employer as having been continuously employed in the distribution and supply of power within the designated area for at least one year immediately prior to the date the utility was established.
- 8.4 Any person who accepts employment in the new utility shall be entitled for a period of one year from the date the new supply authority was established, to receive a wage or salary of not less than that to which he was entitled in the ninth month prior to the termination of his employment with his previous employer.

Section VIII - Cont'd

- 8.5 Employees transferring from existing supply authorities to new electrical utilities be ensured of retaining full entitlement to all pension rights and benefits provided with and by the predecessor authority.
- 8.6 Employees transferring to a new municipal utility be credited by their new employer with any sick leave credits, and vested rights therein, upon termination of their employment with their previous employer. It is recognized these entitlements may be unassociated with sick leave plans of the successor utility.
- 8.7 The new electrical utility shall be required to provide life insurance for transferees at levels not inferior to existing plans carried by their prior employer at date of transfer. Where existing utilities are contributing towards life insurance policies of pensioners, then the successor utility will continue these arrangements.

SECTION IX - FINANCING OF RESTRUCTURED UTILITIES

- 9.1 *Further consideration be given to the establishment of an Ontario Hydro-municipal electrical utility type of credit union as an alternative to the traditional methods of obtaining borrowed funds.*
- 9.2 *While the required level of working funds will vary depending on such factors as the restructured utility's size, cash flow and rate of growth, in all cases working funds should be equivalent to 20 to 45 days of net operating expenses.*
- 9.3 *The re-establishment and separation costs of the physical plant and the transitional or start-up costs associated with the restructured electrical utility be met through external provincial subsidy.*
- 9.4 *Where the new retail rate levels required by the restructured utility will result in significant increases in customers' accounts, a phasing-in procedure be adopted by discounting the customers' accounts for a specified period of time to minimize the impact of the new rate level and that the costs of this phasing-in process be met through external provincial subsidy.*

APPENDIX I

MEMBERS OF THE COMMITTEE

CHAIRMAN

W.M. Hogg
Chairman & President
Great Lakes Power Co. Ltd.

| | |
|-----------------|---|
| E.G. Bainbridge | Member - Ontario Hydro |
| I.L. Bradley | Alternate Member - Association of Municipal Electrical Utilities (of Ontario) |
| L.E. Cooke | Member - Municipal Liaison Committee |
| E.M. Fleming | Member - Government of Ontario |
| G.D. Hamilton | Member - Ontario Municipal Electric Association |
| Dr. R.H. Hay | Alternate Member - Ontario Municipal Electric Association |
| D.K. White | Member - Association of Municipal Electrical Utilities (of Ontario) |

| | |
|--------------------|---|
| Resource Personnel | - D.B. Ireland Assistant General Manager - Regions and Marketing Ontario Hydro |
| | - J.R. Picherack Local Government Regional Branch Ministry of Treasury Economics and Intergovernmental Affairs |
| | - C.H. Lusk Marketing Branch Ontario Hydro |

| | |
|-----------|---------------|
| Secretary | - D.A. Ramsay |
|-----------|---------------|

APPENDIX 11

SUBMISSIONS RECEIVED:

DATE:

Regional Municipality of Durham

| | |
|---|--------------|
| City of Oshawa - Board of Control | September 21 |
| Orono H.E.C. | 21 |
| Association of Lakeshore Municipal Hydro and Water Systems | 21 |
| Oshawa P.U.C. | 21 |
| Whitby P.U.C. | 20 |
| Bowmanville P.U.C. | 19 |
| Ajax Hydro | 19 |

Halton

| | |
|---------------------------------|--------------|
| Acton H.E.C. | September 21 |
| Milton Hydro | 21 |
| Oakville P.U.C. | 21 |
| Regional Municipality of Halton | 20 |
| Burlington P.U.C. | 19 |
| Georgetown Hydro | 19 |

Hamilton-Wentworth

| | |
|---|--------------|
| Waterdown P.U.C. | October 10 |
| Regional Municipality of Hamilton- Wentworth | 1 |
| Stoney Creek Hydro | September 21 |
| Dundas P.U.C. | 20 |
| Hamilton H.E.C. | 17 |

SUBMISSIONS RECEIVED:

DATE:

Muskoka

| | | |
|--------------------|-----------|----|
| Bracebridge Hydro | September | 21 |
| Gravenhurst P.U.C. | | 19 |
| Huntsville P.U.C. | | 19 |

Niagara

| | | |
|------------------------------------|-----------|----|
| Grimsby Hydro | October | 10 |
| Regional Municipality of Niagara | | 9 |
| City of Niagara Falls | September | 26 |
| Port Colborne Hydro | | 25 |
| Township of West Lincoln | | 24 |
| Town of Thorold | | 25 |
| Niagara H.E.C. | | 21 |
| Regional Municipality of Niagara | | 21 |
| St. Catharines P.U.C. | | 21 |
| City of St. Catharines | | 21 |
| Welland Hydro | | 21 |
| Town of Thorold | | 19 |
| Niagara Falls Hydro | | 18 |
| Galt P.U.C. | | 17 |
| Thorold P.U.C. | | 19 |
| Corporation of the City of Welland | | 19 |

Norfolk-Haldimand

| | | |
|--------------------------|-----------|----|
| Delhi P.U.C. | September | 26 |
| Port Dover P.U.C. | | 26 |
| Simcoe P.U.C. | | 24 |
| Village of Cayuga H.E.C. | | 19 |
| Newcastle P.U.C. | | 19 |
| The Village of Jarvis | | 12 |

SUBMISSIONS RECEIVED:

DATE:

Ottawa-Carleton

| | | |
|---|-----------|----|
| Regional Municipality of Ottawa-Carleton | September | 20 |
| Ottawa Hydro | | 19 |
| Corporation of the Township of Gloucester | | 18 |

Peel

| | | |
|--------------------|-----------|----|
| Hydro Mississauga | September | 22 |
| H.E.C. of Brampton | | 19 |

Sudbury

| | | |
|----------------------------------|-----------|----|
| Town of Capreol | October | 12 |
| Sudbury Hydro | September | 24 |
| Regional Municipality of Sudbury | | 21 |

Waterloo

| | | |
|--------------------------------------|-----------|--------------|
| Corporation of the Twp. of Wilmot | September | 25 |
| Waterloo Reg. Hydro Study Committee: | | |
| Kitchener P.U.C. |) | |
| St. Jacobs H.E.S. |) | |
| Hespeler Hydro |) | |
| Bridgeport H.E.S. |) | |
| Preston P.U. |) | |
| Waterloo Hydro |) | September 20 |
| Elmira P.U.C. |) | |
| Baden H.E.S. |) | |
| New Hamburg P.U.C. |) | |
| Galt P.U.C. |) | |
| Ayr P.U.C. |) | |
| Wellesley H.E.S. |) | |
| Kitchener P.U.C. | | September 20 |

SUBMISSIONS RECEIVED:

DATE:

York

| | | |
|-------------------------------|-----------|----|
| Town of Markham | October | 12 |
| Town of Newmarket | | 12 |
| Town of Markham | | 1 |
| Regional Municipality of York | September | 28 |
| Town of Newmarket | | 25 |
| King City Hydro | | 25 |
| Vaughan Hydro | | 21 |
| Town of Markham | | 20 |

